VZCZCXRO9652
RR RUEHMA RUEHPA
DE RUEHBP #0349/01 1541626
ZNR UUUUU ZZH
R 031626Z JUN 09
FM AMEMBASSY BAMAKO
TO RUEHC/SECSTATE WASHDC 0395
INFO RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 02 BAMAKO 000349

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON EAID ETRD EINT EAGR ML
SUBJECT: IMF FORESEES STABLE MACROECONOMIC OUTLOOK FOR MALI IN 2009

REF: 09 BAMAKO 340

1.(U) Summary: On May 19 the International Monetary Fund (IMF) concluded its annual review of Mali's three-year Poverty Reduction and Growth Facility (PRGF). Speaking to the international donor community on May 18, the IMF said Mali was well positioned to weather the global economic crisis and predicted a stronger balance of payments scenario for 2009 based in large part on the optimistic assumption that Mali will succeed in privatizing its national telecommunications company, SOTELMA, within the year. Maret said Mali had met its 2008 targets but cautioned that there were delays with some structural reforms. He said budgetary policy would be loosened in 2009 to allow for greater investment in the agricultural sector. Meanwhile, contractual tax exonerations to the mining sector and the restructuring of the Malian Housing Bank, together with high internal debt, remained obstacles to the adoption of sound fiscal policy. On May 20, however, one of Mali's main business leaders provided the Embassy with a noticeably less rosy view of Mali's economic future. End summary.

Mali Escapes Economic Crisis, For Now

2.(U) On May 18 IMF African Department Deputy Division Chief Xavier Maret said Mali would be largely insulated from the 2009 global economic crisis. Speaking alongside Mali's newly appointed Minister of Economy and Finance, Sanoussi Toure, Maret said Mali's GDP remained stable as gold, which accounts for 80 percent of Mali's export revenue, continued to fetch a high price on the world market. Maret said remittances, tourism, and foreign direct investment would decline in 2009 but that this would be offset by an increase in revenue from customs, taxes from the mining industry, and petroleum products. The GOM would further increase revenue by following World Bank and IMF recommendations to raise the state-owned electricity company's tariffs for businesses and wealthier households.

3.(U) Maret said global decreases in food and petroleum prices had lessened financial pressures for Malian consumers and businesses. The IMF predicted that balance of payments would improve in 2009 once the GOM completed the privatization of the telecommunications parastatal company SOTELMA. This privatization process, however, recently suffered a serious setback when the GOM rejected a takeover bid from the Moroccan telecommunications company Maroc Telecom. Maroc Telecom had offered to purchase SOTELMA for approximately USD 330 million, or USD 70 million less than the GOM's asking price. After more than three months of negotiations with Maroc Telecom to fashion a deal, Mali rejected Maroc Telecom's offer in May and must now issue a new tender for SOTELMA. The IMF acknowledged some delays in structural reforms such as the privatization of the cotton parastatal CMDT, but remained nonetheless optimistic that these needed reforms would take place in 2009.

Budgetary Policy and the Agricultural Sector

4.(U) Mali's internal debt, estimated between 200-300 billion CFA (400-600 million USD), is a considerable obstacle to economic growth. Maret said IMF efforts to work with the GOM to reduce the debt were complicated by indirect accounting methods in the national budget. In 2009, the GOM faced an additional outlay of 57 billion CFA (114 million USD) in the return of value-added tax to mining companies and the restructuring of the Malian Housing Bank (BHM). As a result of these costs, the budget deficit in 2009 would rise above 1.5 percent of GDP. Although this is 0.3 percent more than the IMF had initially forecasted, Maret said this would have limited negative effects on the economy.

5.(U) The IMF said budgetary policy in 2009 would be driven by investment in the agricultural sector as the Malian government sought to increase cereal and cotton production. Mali's cotton production has dropped substantially in recent years (reftel). Maret said the key aspect of any agricultural program would include first and foremost payment to cotton producers for the 2008/9 campaign. To date, just 39 percent of cotton producers have been paid - a statistic that threatens to undermine the 2009/2010 campaign. Maret estimated that Mali needed 20 billion CFA (40 million USD) to finance successful cotton campaign this year. World Bank Senior Agricultural Economist Agadiou Dama told the Embassy on June 2 that the WB was finalizing a USD 70 million allocation to Mali's agricultural sector, though he did not specify how much of this would be earmarked for cotton.

Germany's representative at the IMF meeting indicated that Germany may also provide additional assistance as it is increasing its bilateral aid to Mali.

6.(U) Maret said it was difficult to ascertain exactly what, in budgetary terms, the GOM intended to allocate to the agriculture sector. He complained that GOM decisions on agricultural subsidies were often ad hoc and driven by short term political considerations. Maret advised the GOM to keep subsidies to a minimum and implement rigorous oversight of any future subsidies, which has not been done in the past.

Local Industrialist Is Less Optimistic

7.(SBU) In contrast to the generally positive economic outlook presented by the IMF, a leading local businessman said that the country's internal debt was stifling the private sector. On May 20 Cyril Achcar - Director of the Achcar Group which owns two of Mali's three flour mills, the local airline Mali Air Express, a large detergent factory, and a candy factory - said that some local companies had been driven out of business as they awaited payments for goods and services provided to the government. According to Achcar, these payments were routinely delayed by more than one year. Achcar also challenged the IMF's assumption that global decreases in food and fuel prices somehow lessened financial pressures for Malian consumers and business. Achcar said the purchasing power of Malian consumers was not rising fast enough to fuel economic growth and attributed any increases in consumption to nothing more than modest population growth.

Comment: An Optimistic IMF?

8.(SBU) Mali's relative insulation from instability associated with the global financial crisis is largely a function of Mali's reliance on gold exports. During a separate meeting with the Ambassador on May 13 the IMF team noted that Mali's good fortune in this regard was

attributable not to GOM decision making but rather to chance as gold is one of the few commodities to experience a rise in global prices. Mali's gold deposits, however, are dwindling and, with 70 to 80 percent of its export revenues dependent on gold, a sudden drop in prices could have serious consequences. The IMF's bet that Mali will manage to privatize SOTELMA in 2009 and resurrect Mali's rapidly sinking cotton sector may be overly optimistic. Any potential economic good news for Mali in 2009 may also be offset by a less than propitious business environment. Companies like Achcar's, which have been in Mali since before independence and enjoy a near monopoly, will continue to thrive. But Achcar's comments underscore the difficulties for smaller companies or those seeking to break into the market. With a slow rise in consumer demand and a government unable to pay its bills on time, Mali's business climate remains a difficult place in which to fuel economic growth.
LEONARD